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THE WORLD ECONOMY AT THE END OF 1989 AND SHORT-TERM PROSPECTS

Note by the Secretary-General

The world scene in 1989 was dominated by spectacular political developments. Superpower relationships and the political structure in Eastern Europe changed dramatically. In themselves, these changes are epoch-making; their implications for the world economy are far reaching. At the end of the year they tended to overshadow developments in the international economy.

As predicted in the World Economic Survey, 1989, 1/ the world economy slowed down in 1989 after strong growth in 1988. Growth decelerated in all major groups of economies, but unevenly (see table). The deceleration was relatively modest in the developed market economies and the developing countries and sharp in Eastern Europe. Differences in growth rates among countries remained large, particularly among developing countries. Per capita output increased fairly significantly in the industrial countries, but in Africa and Latin America the average level of income continued to fall, as it has throughout the decade. In Asia, per capita output rose rapidly, although mass poverty remained pervasive.

The developed market economies, which have had the longest economic expansion in post-war history, slowed down in 1989 but no recession is forecast in the near future. Growth remains strong in the major economies. Business confidence remains high and has been buoyed by the prospects of European integration. In a number of developing countries which had been growing fast in the 1980s, growth has been slowing down but still remains high. The growing economic relations with Eastern Europe and the Soviet Union, while fraught with great problems, should on balance be expected to stimulate trade and investment.

Yet there are threats to the world economy. The most likely development is a continuation of present trends, but those imply growing tensions and great challenges to policy makers. The problems of the dollar, interest rates, external debts and commodity prices continue to weigh heavily over the world economy.

1/ United Nations publication, Sales No. E.89.II.C.1.

Growth of output by region and selected country groupings and world exports, 1981-1990

	Annual percentage rate of change						Population 1988 (million)
	1981-1985	1986	1987	1988	1989 a/	1990 b/	
World	2.7	3.3	3.5	4.4	3.2	3.0	5 112
Developed market economies	2.2	2.7	3.3	4.2	3.2	2.7	809
North America	2.4	2.9	3.4	4.6	2.7	2.2	272
Western Europe	1.5	2.6	2.6	3.3	3.3	2.6	356
Developed Asia	3.6	2.5	4.0	5.4	4.7	4.2	142
Eastern Europe and the Soviet Union c/	3.3	4.3	2.6	4.1	2.5	..	396
Developing countries	2.5	3.9	4.1	4.5	3.3	4.0	3 907
Western hemisphere	1.0	3.6	2.5	0.2	0.7	3.0	430
West Asia	-0.9	0.1	-1.3	1.0	2.0	3.5	66
South and East Asia	4.8	5.5	5.5	7.4	6.4	6.0	1 653
China	10.2	8.3	10.6	11.2	5.0	4.0	1 104
Africa	-0.9	-2.1	0.9	2.3	2.6	3.0	576
Mediterranean	2.9	5.6	3.7	3.2	3.7	4.5	78
Memorandum items:							
Heavily indebted countries d/	-3.0	3.3	2.5	0.9	1.3	3.2	588
Sub-Saharan Africa e/	-0.7	-0.2	0.0	2.3	2.5	2.8	359
Volume of world exports	2.0	3.8	5.7	8.5	6.5	6.0	-

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on data provided by the regional commissions, Project LINK and other sources.

a/ Preliminary estimates.

b/ Forecast. For the groups of developing countries, estimates are rounded to the nearest half percentage point.

c/ Net material product; data for 1981-1988 are government estimates.

d/ The countries in this group are Argentina, Bolivia, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela and Yugoslavia.

e/ Excluding Nigeria.

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The following appraisal of the world economy and its prospects for 1990 was prepared for the information of United Nations delegates and the international community by the Department of International Economic and Social Affairs of the United Nations Secretariat. It draws on the analyses of the regional commissions of the United Nations in Europe, Latin America and the Caribbean, Africa, Asia and the Pacific, and Western Asia.

I. DEVELOPMENTS IN 1989

A. Growth of output

World production and trade continued to expand in 1989, but more slowly than in 1988. According to preliminary estimates, world output increased by around 3 per cent compared with 4.4 per cent in the preceding year. After an extraordinary growth of 8.5 per cent in 1988, international trade is estimated to have grown by around 6.5 per cent in 1989, which is high by historical standards.

1. Developed market economies

The developed market economies continued to grow in 1989, the seventh year of uninterrupted expansion. But, as widely expected, the rate of growth slowed down; it declined from 4.2 per cent in 1988 to just over 3 per cent in 1989. This was still above the average for the decade.

The deceleration varied considerably between countries. Among the large economies, the sharpest slow-down was in Canada and the United States of America. Growth in the United States is estimated at around 2.7 per cent for 1989, or less than two thirds of the 4.4 per cent growth in 1988. The deceleration in Canada was of similar magnitude. Most other major economies grew almost as fast in 1989 as in 1988 or even faster. Japan's economic growth dropped from about 5.7 per cent to around 5 per cent, and the Federal Republic of Germany grew by around 4 per cent, which was faster than in 1988 and its fastest rate in the 1980s. The British, French and Italian economies grew only slightly more slowly in 1989 than in 1988, and some of the smaller economies, notably Spain, grew faster.

The continued strength of the developed market economies in Western Europe and Japan was fueled largely by an investment boom which had begun earlier and remained strong in 1989. In Europe, the growth of investment was due to buoyant business confidence and industrial restructuring in the run-up to the introduction of the single market in the European Economic Community (EEC) in 1992. In Japan, the strong growth in capital spending was geared to the shift towards expansion of the domestic market.

The growth of these economies in recent years was reflected in a significant decline in unemployment, though it remains high in a number of countries. The relatively large slow-down in the United States in 1989 was accompanied by a slight edging up of the unemployment rate which at around 5.5 per cent, remains among the lowest in the major economies. In Europe, the rate of unemployment, though still high, was projected to decline further in 1989.

Expansion in the developed market economies over the last three years was accompanied by accelerated inflation. Consumer prices rose faster in almost all the major economies during 1987-1988 and well into the second quarter of 1989, but the rate of increase slowed somewhat in the third quarter. The rate of inflation remains relatively low, however. For the developed market economies as a whole, consumer prices rose by an annual rate of 4.7 per cent in the first nine months of 1989, compared with 3.0 per cent in 1987 and 3.3 per cent in 1988. Price increase rose from 4.1 per cent in 1988 to 4.9 per cent in the first nine months of 1989 in the United States, from 0.9 per cent to 2.2 per cent in Japan, and from 1.2 per cent to 2.9 per cent in the Federal Republic of Germany. Among the major economies, the rate of inflation was the highest in the United Kingdom of Great Britain and Northern Ireland, where it increased from 5.1 per cent to 7.8 per cent.

The macro-economic response to the inflationary pressure has been a tightening of monetary policy. The Federal Republic of Germany raised official interest rates by 1 percentage point and Japan by almost 2 percentage points. Interest rates were high and rising in the United Kingdom. Credit policy remained tight in the United States in the midst of continuing concern over inflation, but was eased slightly by mid-year as the economy began to slow down.

2. Developing countries

In the developing countries, growth slowed in 1989. The slow-down was pronounced in some of the rapidly growing economies, while the declining ones showed only marginal improvement.

South and East Asia

South and East Asia continued to be the most rapidly expanding region in the world in 1989, but even that region did not maintain the rapid pace of the previous year. Several of the export-oriented economies have been adversely affected by the deceleration in some of the developed market economies and China and, in some cases, by the earlier revaluations of their currencies and increasing unit labour costs. In some of these countries, the deterioration in export prospects is being offset by a boom in private domestic consumption brought about by several years of steady growth.

Although weather conditions in South Asia were generally favourable in 1989, agricultural output is unlikely to have surpassed the previous year's level. As a result, the rate of growth of GDP in India is likely to be about 2 per cent lower than in 1988 but will still be around 6 per cent. Growth in Sri Lanka has suffered as a result of civil unrest.

Latin America and the Caribbean

In Latin America, output increased modestly in 1989 after a decrease in 1988. The improvement was due almost entirely to a turn-around in Brazil, although Mexico also improved on its 1988 growth performance. The rate of growth of the other countries in the region was less than in 1988, and growth in the region as a whole was insufficient to avoid a fall in per capita output for the second consecutive year.

READEX FICHE

In most countries in the Latin American region, economic stagnation in 1989 was largely the result of stabilization measures. The main economic concern in many of these countries was inflation and hyper-inflation. In Argentina, Nicaragua and Peru, economic stabilization measures resulted in negative growth for the second consecutive year; policy actions also resulted in a sizeable fall in output in Venezuela in 1989. At the other end of the spectrum, Chile experienced another year of robust growth, while Colombia, the only country in the region to have made sustained progress during the previous years of the decade, slowed down in 1989. For many countries in the region, a large net outflow of resources resulting from the debt crisis remains a serious constraint to growth.

Africa

Economic conditions in Africa remain disconcerting. The formulation in 1989 by the Economic Commission for Africa (ECA) of an African Alternative Framework for Structural Adjustment Programmes and the publication of a comprehensive report by the World Bank, entitled Sub-Saharan Africa: From Crisis to Sustainable Growth, reflected the widespread concern about Africa's continuing development crisis. In 1989, growth is estimated to have been only slightly higher than in the previous year. This means a further decline in per capita output. Regional wars and civil unrest continue to be a major impediment to economic and social progress in several countries. In particular, conflicts in Ethiopia and the Sudan, coupled with a drought in the affected regions, are putting hundreds of thousands of people at risk of starvation in the immediate future.

West Asia

The dependence of the economies of West Asia on the international oil market remains undiminished. Oil prices on average have been some 20 per cent higher in 1989 than in 1988. The energy-exporting countries of the region have benefited accordingly. Output in this sub-group of countries is estimated to have grown by some 2-3 per cent in 1989 after negligible growth in 1988. Despite this, these economies are still in the process of adjusting to the lower oil prices that have prevailed since 1986. This adjustment has also had a major influence on neighbouring countries through three main channels: a decrease in energy-exporting countries' imports from them; a collapse in workers' remittances; and a reduction of development assistance flows. Some of the energy-importing countries in the region have also accumulated large external debts, which they are finding difficult to service in the less favourable economic environment.

China

Economic growth in China slowed in 1989 to about 5 per cent, one of its lowest levels in the 1980s. Industrial output increased by about 7 per cent, compared with almost 18 per cent in 1988. Agricultural output probably increased by around 4 per cent. The economy, which had been growing very fast in the 1980s, grew by 11 per cent in 1988. Such growth was becoming unsustainable. Serious imbalances developed in the economy, and the rate of inflation rose to an unprecedented 25 per cent in the first half of 1989. The economic slow-down in China in 1989 was mainly due to contractionary measures taken. The growth of money supply was severely curtailed and interest rates raised. Central government investment expenditure was substantially cut and real wages in state enterprises reduced.

These policies have started to produce the intended result of checking inflation, which declined to an annual rate of around 9 per cent in October.

With the moderation of domestic demand and imposition of import restrictions, the growth of imports slowed, while exports increased faster than before. Yet, a drastic fall in tourism and increased interest payments on foreign loans led to a worsening of the current account deficit in 1989. The currency was devalued by 21 per cent in December as part of efforts to reduce the payments imbalance.

3. Eastern Europe and the Union of Soviet Socialist Republics

Political upheavals and continuing striving for political and economic reforms acquired far greater significance for the economies of Eastern Europe and the Soviet Union than any measure of their growth in 1989. Output grew only modestly, even in comparison with the average rate of the 1980s. After growing by around 4 per cent in 1988, net material product in these economies probably increased by about 2.5 per cent in 1989. The growth of industrial production slowed considerably, especially in Bulgaria, the German Democratic Republic, Poland and the Soviet Union. Agricultural production in most of these economies also fell far short of the rather ambitious targets and probably increased by about 2 per cent.

The Soviet Union and virtually all countries in Eastern Europe are in the throes of reforms aiming to reshape their political and economic systems fundamentally in the direction of greater reliance on market mechanisms and democratic governance, though the shape of both of these is still under debate. They are encountering severe transition problems ranging from high inflation to acute scarcities and labour unrest. A great number of changes have to be made simultaneously, and harsh adjustment policies are necessary. External assistance will also be needed for industrial restructuring, debt relief and stabilization of government finances.

B. International trade

International trade remained buoyant in 1989 after a remarkable growth in 1988. There were signs, however, that the growth of trade was slowing in the latter part of the year. Preliminary data suggest that for the year as a whole, trade may have grown by around 6.5 per cent.

Significant progress was made in negotiations under the Uruguay Round to liberalize trade and strengthen the trading system. Activities in all the negotiating groups picked up and participating countries reaffirmed their commitment to complete the negotiations by the end of 1990, as agreed at Punta del Este. An early result of the negotiations was an agreement to strengthen the General Agreement on Tariffs and Trade (GATT) dispute settlement machinery. Indeed, greater use is now being made of the GATT dispute settlement mechanism. The trade policy review mechanism initiated early in the year is in operation, and the trade policies of Australia, Morocco and the United States have already come under review. GATT membership is increasing and a number of countries have applied for membership. The Soviet Union is close to receiving observer status in GATT, and China's re-entry application is under examination.

However, there was little actual trade liberalization, and quantitative trade restrictions continued to proliferate. The trend towards bilateralism in trade relationships continued. The United States has emphasized bilateralism in action taken under the Omnibus Trade and Competitiveness Act of 1988. The Canada-United States trade agreement further strengthened bilateral trade relations among two major participants in international trade.

There were further moves towards the formation of trading blocs in 1989. At the December 1989 summit, EEC made significant progress towards the creation of a single market in 1992, which will free trade and capital flows between member States. The decision to move towards monetary union was a major step in that direction. An agreement between EEC and the European Free Trade Association (EFTA) for further liberalization of movement of goods, services, capital and people between the two country groups was nearly complete by the end of the year. In November, ministers from a group of 12 countries of the Pacific rim met in Canberra to discuss increased regional co-operation, trade liberalization and a common position in multilateral trade negotiations. Although the Conference on Asia-Pacific Economic Co-operation is intended to be an association that is looser than a trading bloc discriminating against outsiders, it may turn out to be the first step towards the formation of a new trade alignment.

The implications of such developments for the multilateral trading system are as yet unclear. The dynamic effects of regional integration will often benefit outsiders as well, but new discriminatory treatment will create new tensions. Above all, if world commercial policy issues are to be settled in negotiations between a few major blocs rather than among the States that are now members of GATT, the trading system will take on a new character.

C. Debt and the net transfer of financial resources

A major international concern in the 1980s was that many developing countries had to severely cut back essential domestic expenditures, especially investment, in order to make a net transfer abroad of financial resources. The countries most affected are heavily indebted and largely middle-income. Since 1983, their net capital inflows have been less than the net payment of interest and profits (figure I illustrates the effects for an indicative sample of 15 developing countries). 2/ Others, generally low-income countries, including many that also have heavy debt burdens, have continued to enjoy a positive net transfer from abroad, albeit at a lower rate than in the early 1980s (see figure II for the case of sub-Saharan Africa). 3/

2/ The 15 countries are Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela and Yugoslavia.

3/ Nigeria is excluded from the sub-Saharan Africa group since its large economy would otherwise mask the results of the many smaller African countries. It is included in the group of 15 heavily indebted countries.

The total outstanding external debt of the capital-importing developing countries reached $1.1 trillion in 1987, a level at which it remained in 1988 and in 1989 as well, according to preliminary data. The group of 15 heavily indebted countries probably spent over 40 per cent of their export earnings in 1989 on servicing their debt, only slightly less than in 1988, while the corresponding ratio for the countries of sub-Saharan Africa was about 27 per cent, somewhat more than in 1988. Interest payments alone were estimated at 23 per cent of the export earnings of the former group in 1989 and 13 per cent of that of the latter.

In 1989, higher interest rates in international capital markets raised the interest payments required on debt owed to international commercial banks, while there was little new lending to these countries except from official institutions. Capital flight has been arrested or reversed in countries that were able to offer sufficiently attractive conditions to retain the capital of their citizens, but the present communication facilities ensure that capital flight will continue if the only impediment is administrative controls on capital flows. It is a symptom of the difficulties that many debtor countries were accumulating new arrears of interest and principal to their foreign creditors, including the International Monetary Fund (IMF) and the World Bank.

All in all, preliminary and partial data suggest that the net financial transfer out of the 15 country sample, rose from $33 billion in 1988 to about $37 billion in 1989, almost 4 per cent of their GDP. The net transfer into the sub-Saharan group is estimated at about $5 billion (almost 4 per cent of GDP), essentially the same in nominal dollar terms as in 1988.

It is now widely recognized that in the case of heavily indebted middle-income countries, the solution of the debt problem cannot be to add more loans to a debt that already cannot be serviced. Debt reduction has an important role in straightening out such situations. That is why creditor Governments adopted the March 1989 proposal of the United States Secretary of the Treasury (the "Brady Plan"), under which loans from IMF and the World Bank, as well as from the Government of Japan, would help underwrite a negotiated reduction of commercial bank debt and debt servicing.

The experience of the first Brady Plan case, that of Mexico, was that the negotiations with the banks proved very difficult and protracted. In the end intensive creditor Government involvement was required to bring them to a close. A long period was then needed to arrange details and "sell" the package to Mexico's 500 creditor banks. The programme was expected to reduce the burden of commercial bank debt by roughly 35 per cent through a combination of debt reduction, interest reduction and "new money" loans, although the net benefit would be less since the official credits that were used to enhance the debt reduction scheme also had to be serviced. No overall framework was set by the Mexican case, as subsequent Brady Plan negotiations settled on very different packages for the Philippines and Costa Rica. In any event, by late December 1989, none of the agreements had been completed and implemented.

Meanwhile, informal and formal debt/equity swap programmes and related arrangements have captured some of the secondary market discounts and continue to

chip away at the stock of outstanding debt in some countries, notably Brazil, Chile, Mexico and the Philippines. In addition, the Governments of Belgium, Canada, France, the Federal Republic of Germany and the United States have begun over the last year to cancel outright certain debts of low-income countries undertaking major economic adjustment programmes. Operations of the Paris Club under the 1988 Toronto Summit agreement have also added a measure of concessionality to rescheduling of mainly official export credits owed by low-income countries. But there too, the experience has been that negotiations were long and difficult, especially when the debtor had to reach agreement with each creditor Government separately after the framework agreement in the Paris Club itself.

In sum, although there is now a patchwork of policies for partial reduction of debt or debt service, the international design of a comprehensive policy to resolve the debt crisis is far from complete.

D. Commodity prices

Prices of non-fuel commodity exports of the developing countries rose significantly in 1988 after years of decline, but levelled off by mid-1989 and have since been declining again (see figure III). For the period January-October, average dollar prices were practically at the same level as in the corresponding period a year earlier. The overall weakness largely reflects a sharp fall in prices of tropical beverages, in particular coffee and cocoa, which account for a high proportion of the foreign exchange earnings of a large number of countries. Coffee prices declined as quota arrangements under the International Coffee Agreement were suspended. A continuing excess supply depressed cocoa prices in 1989 below the record low levels of 1988. Sugar prices, on the other hand, rose from the very low levels of the mid-1980s as output continued to fall short of consumption. The decline in prices was not, however, confined to tropical beverages. Metal and mineral prices also weakened, largely as a result of a slack in demand, after substantial increases in 1988 and early 1989. Supply disruptions due to labour strikes caused a large increase in copper prices in September, but they resumed their fall later in the year.

Measured in terms of prices of manufactured imports from developed countries, commodity prices rose in 1988. But in such real terms, they were lower in the third quarter of 1989 than in the same period of 1988 and were about 30 per cent below their peak in 1979-1981.

While non-fuel prices stagnated or declined, fuel prices rose, though with considerable fluctuations (see figure IV). With world oil consumption increasing by around 2 per cent a year and with cutbacks of exports from the Soviet Union and decline in output in the United States and the North Sea, the demand for oil exports of developing countries has been increasing. Average world prices of oil were about 20 per cent higher in 1989 than in 1988. As prices of manufactured imports were stable, oil prices in real terms rose by a similar magnitude.

E. United States international payments deficit and the dollar

An orderly reduction of the large United States payments deficit on current account remains an issue of international concern. The deficit narrowed in 1988 and a further modest improvement was achieved in the first nine months of 1989. Nevertheless, it stood at an estimated $125 billion for 1989, or only slightly lower than in 1988, and amounted to 2.4 per cent of GNP, which was a slight improvement over the previous year. The reduction was achieved through a very large expansion of exports, helped by a depreciating dollar. The narrowing of the trade deficit did not, however, compensate for the deterioration of the balance in services, which reflected the growing net debtor position of the United States and the increasing flow of net interest and investment income payments abroad.

The large United States deficit corresponded to the surpluses generated elsewhere, especially by Japan and, to a lesser extent, the Federal Republic of Germany. The estimated combined surplus of these two countries stood at $125 billion in 1989. This surplus shows little sign of decline.

Foreign capital is still attracted to the United States and thus sustains the deficit, since confidence in the economy remains high. If expectations about a fall in the dollar arise, they might become self-fulfilling and discourage the foreign capital inflow. But such concerns have so far proved misplaced.

As the fall in the value of the dollar since 1985 was a major factor that helped to reduce the trade deficit, the consensus among policy makers appears to have been that the dollar had again risen too high by mid-1989. Central bank intervention to bring it to a more stable level was very large. Yet the dollar continued to rise for most of 1989. Although the appreciation of the dollar helped to reduce the trade deficit in 1989 through an improvement in the dollar prices of foreign goods, it will have an adverse effect on the deficit in the longer run since it is eroding the competitiveness of United States exports.

II. PROSPECTS FOR 1990 AND INTERNATIONAL POLICY CHALLENGES

The world economy is expected to slow down further in 1990 (see table) but retain a considerable diversity of growth experience among countries. The latest forecasts suggest that the rate of growth in the developed market economies may decline somewhat below 3 per cent, compared with slightly above 3 per cent in 1989. The year 1989 has been one of slow growth in a large number of developing countries, mostly in Latin America and Africa. Modest growth is expected in these economies in 1990. A further moderate deceleration is expected for South and East Asia, but the average rate of growth in the economies of the region will still remain high by most standards. In China, growth in 1990 is expected to be close to the sharply reduced rate of 1989, and a quick return to the rapid growth of the 1980s is not expected.

Although the rate of growth of the developed market economies is expected only to slow down, a sharper deceleration or a recession remains a possibility. The persistence of a large United States payments deficit continues to be a danger to

the stability of the world economy. The risk of instability could be reduced by a speedier narrowing of the United States fiscal deficit, which mirrors the payments gap. Foreign savers have been financing the United States fiscal deficit for a number of years, and their continuing willingness to do so at the present scale is not guaranteed. The relaxation of tension between East and West and the mutual desire to cut military expenditure provide an opportunity to reduce the deficit by more than was foreseen even a few months ago.

For a large number of developing countries, their ability to stay on the course of policy reform that they have undertaken will be essential. That ability will, however, depend in part on developments in the world economy and progress in resolving the debt crisis. The predicted slow-down in the world economy may depress commodity prices further and compound their difficulties.

The need for a quick resolution of the debt crisis is no longer in question; neither is the need for debt reduction as an essential part of the solution. The current negotiations for debt reduction have proved cumbersome and drawn-out. They have demonstrated the need for greater and more persuasive involvement of the Governments of creditor countries in the negotiating process. Creation of a new international facility for debt restructuring should remain on the international agenda.

An open world trading system is a pre-condition of a continuing expansion of the world economy. The current round of trade negotiations to strengthen the multilateral trading system will enter a critical phase in 1990. Though progress has been made, difficult areas of negotiation lie ahead. A determined effort will be required to bring them to a successful conclusion. Meanwhile, national trade policies must not undo what international efforts are seeking to achieve.

The revolutionary changes in Eastern Europe and the Soviet Union will have profound implications not only for them, but for the rest of the world as well. The possibility of an end to the debilitating arms race of the super-Powers changes both the political and economic prospects of the world as a whole. The next few years will presumably be one of consolidation of the transition to new economic systems with closer ties to the rest of the world. Substantial additional demands on international resources will be made by countries of Eastern Europe.

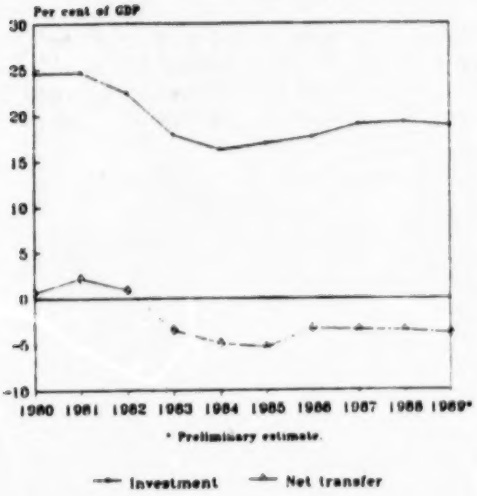
Governments in many developing countries fear that these changes in the international situation will deflect resources and attention from their development problems. However, this is to ignore the repercussions of future disarmament, the waning of the threat of nuclear war and the stimulus to the world economy that is likely to flow from the reduction of the trade barriers between the rest of the world and Eastern Europe and the Soviet Union. Nevertheless, developing countries must be fully assured, in particular, that the additional demands for resources in Eastern Europe will not involve any diversion of resources from their development needs.

The present economic prospects hold a wide spectrum of opportunities and risks, but they are above all marked by the same diversity that characterized developments in 1989. There is the risk of a slow-down in the major industrial

countries that have a decisive influence on the buoyancy of international trade, but this is overshadowed by the concerns about the debt crisis of Latin America, the development crisis of Africa and the problems of transition in Eastern Europe and the Soviet Union.

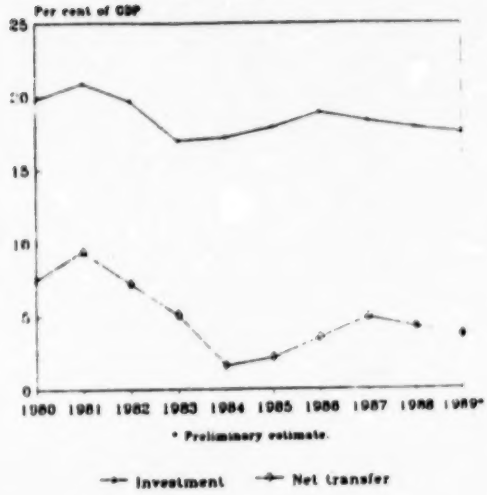
On balance, 1989 has, in most parts of the world, been a year of considerable policy change, of greater realism and much convergence in approaches to stability and growth. The short-term outlook is clouded, and 1990 may not see much progress, but the medium-term outlook for the world economy has greatly improved.

Figure I. Investment and net financial transfer of 15 middle-income, highly indebted developing countries, 1980-1989



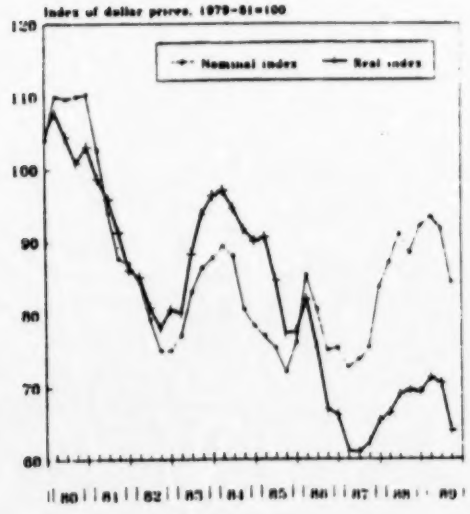
Source: UN/DIESA, based on data of IMF and the World Bank.

Figure II. Investment and net financial transfer of sub-Saharan Africa excluding Nigeria, 1980-1989



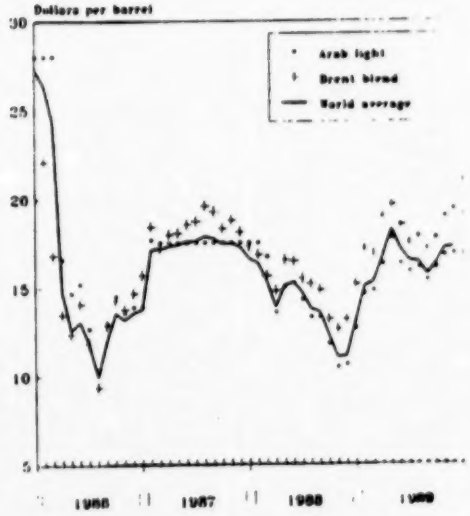
Source: UN/DIESA, based on data of IMF and the World Bank.

Figure III. Prices of non-fuel commodity exports of the developing countries, 1980-1989



Source: Data of UNCTAD and UN/DIESA.

Figure IV. Prices of crude petroleum, 1986-1989



Source: UN/DIESA, based on U.S. Department of Energy data.